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C O N F I D E N T I A L SECTION 01 OF 02 LUANDA 000249

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SUBJECT: VIGNETTES FROM STAFFDEL PHELAN'S MEETINGS IN LUANDA

REF: LUANDA 231

Classified By: Ambassador Dan Mozena for Reasons 1.5 (b&d).

11. (C) Summary: StaffDel Phelan's March 18-22 visit to Angola provided an opportunity to engage with a wide range of Angolan leaders on issues of importance to our bilateral relationship. Although the overall theme of the visit focused on investment climate, transparency, and Angola's request for high-level engagement with the USG reftel). Post hopes the following gleanings from some of the more memorable meetings will add to a broader understanding of Angola. End Summary.

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(C) ANIP - World Bank Index Not Important  
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12. (C) StaffDel Phelan met with Ari Carvalho, Director of the National Private Investment Agency (ANIP) to discuss Angola's investment climate. Carvalho said ANIP reports directly to President Dos Santos, who charged the organization with a mandate to diversify the economy. Carvalho said ANIP manages incentive packages for priority sectors, including construction, industry, agriculture, ports, transportation, water, and energy. While early projects have had problems with quality (Note: likely a reference to widely publicized issues related to Chinese infrastructure projects), Carvalho said the overall effect of the work has significantly improved the country's economic infrastructure.

13. (C) Responding to a question on bureaucratic red tape, Carvalho told the StaffDel ANIP is not concerned with Angola's poor showing in the World Bank's 2008 Doing Business Index (ranked 167 out of 178 countries in the ease of starting a business). He said the companies Angola is currently attracting are less concerned with government efficiency than with return on investment (ROI). He said it would take too long to address Angola's complicated investment climate, and that ANIP in the short to medium term is looking to attract those investors who are able to compete in the current environment and in pursuit of large returns. Carvalho said Chinese companies are performing well in Angola because they are patient and understand that some business is conducted "under the table." Carvalho added that, "as the country grows, bribes will go away."

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Minister of Industry Talks About Corruption  
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14. (C) When asked about corruption in Angola, Joaquim David, the Minister of Industry, leaned forward and told the StaffDel he would talk about the issue, but that he wouldn't be able to tell them all that he knew about such a sensitive topic. As a former senior executive at SonAngol, David said he learned how crude oil was traded by government workers who became rich as a result. When the Central Bank defaulted on

its loans, David (who was also a former finance minister) said the international community asked that debt service be paid by oil deliveries. David said the Portuguese colonial legacy did not transfer capacity in financial accounting practices, and as a result he said a perception was created that there were "leaks" in the financial transfer system and that SonAngol "did things it shouldn't do." David said now the Ministry of Finance and the Central Bank don't need the oil sector to pay debt service directly. He added that the transparency of debt is now clearer and that auditing is stronger, as demanded by international investors. He told the StaffDel that he couldn't say that the problem is over, "it's not," he added for emphasis, but Angola is heading in the right direction. When asked about the Extractive Industries Transparency Initiative (EITI), Minister David said he was unfamiliar with the program.

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National Treasury Director Very Impressive  
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15. (C) Dr. Armando Manuel, the National Treasury Director in the Ministry of Finance give the StaffDel an impressive presentation of his department's continuing efforts to promote transparency in off budget transactions. According to Manuel, beginning in 2003, Angola began searching for a system to improve the transparent interchange between fiscal and monetary policy. Helped by SonAngol, the Ministry created an information system to administer adjustments to the national budget. Manuel explained that unexecuted budget lines and oil receipts in excess of the declared reference price (56 dollars per barrel in 2008) are held for the government in the Central Bank. As requests come in from the Council of Ministers or the Parliament to spend the money on

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items outside the annual budget process, continued Manuel, strict controls are maintained to ensure proper disbursement of the funds and appropriate accountability. Manuel, a 1995 graduate of Agostinho Neto University, spoke English well and appeared sincere in his desire to open the flow of receipts from Angola's energy sector to a more transparent review. He regretted, for example, that the Ministry of Finance's information system was not yet integrated with its corresponding module from SonAngol.

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Minister of Finance Addresses a Wide Range of Topics  
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16. (C) Dr. Pedro De Morais, Minister of Finance spoke frankly on a wide range of issues raised by the StaffDel. He acknowledged Angola has not been successful with the privatization of state-run assets, adding that the business climate was not conducive and the time not right. De Morais said economic diversification is a priority for the government, as the non-traditional sectors offer more jobs, thus enabling more Angolans to benefit from the nation's wealth. He applauded Angola's relationship with U.S. companies for their contribution to the Angolanization of workers and management. He said that although there are still too many expatriates working four or five years on new projects in Angola, the country's economy depends on the transfer of skills and technologies to local partners.

17. (C) Turning to economic diversification, De Morais said no one will come to invest if the business climate is not welcoming. He said Angola is taking important steps to improve transparency and open its economy to trade relations, and that the market will sanction its actions with increased investor confidence. Responding to a question from the StaffDel, De Morais said the GRA is allocating USD 500 million per year into a "rainy day" National Development Fund, to promote economic diversification.

18. (C) On the margins of the meeting with the StaffDel, De

Morais commented that serious discussions are underway between the Ministry of Finance and the Central Bank regarding a revaluation of the Kwanza against the dollar. DeMorais said he is fighting the move, but that the Central Bank is arguing for a further appreciation of the currency due to the world-wide weakness of the dollar and to sop up excess foreign exchange inflows.

19. (U) StaffDel Phelan did not have the opportunity to clear this message.

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